Q. PLEASE STATE YOUR NAME, ADDRESS, AND OCCUPATION.

A. Brent L. Sires, 101 Executive Center Dr., Columbia, South Carolina. I am employed by the Public Service Commission of South Carolina, Utilities Department, as Chief of Gas.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree, Marketing and Management, from the University of South Carolina and have been employed by this Commission since 1980. I am also recognized as a Certified Public Manager, a nationally accredited management development program for public managers in South Carolina.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to present to the Commission the Utilities Department’s findings and recommendations resulting from its analysis of the Company’s Purchasing Policies, Industrial Sales Program, and the cost of gas factor for the period November 2004 through October 2005.

A. In the May 1988 gas cost recovery hearing, South Carolina Electric and Gas Company (SCE&G) proposed that it be allowed to change to a levelized cost of gas component in its published tariff rates. The procedure the Company proposed and the Commission approved is similar to the currently approved fuel clause used by SCE&G for its electric fuel cost recovery. The procedure provides for the projection of the Company's cost of gas over a twelve-month period. SCE&G is to record, on a monthly basis in a deferred or unbilled account, the difference between the cost of gas collected from its customers and the actual cost of gas incurred and is required to file monthly reports with this Commission to keep it informed as to the activity in this account. This account is to reflect the net accumulation of over or under collection of gas costs from its customers, and the net accumulated variance in this account is to be treated as a true-up provision. The variance in the account is to be incorporated into the establishment of the base gas cost for the next period. This accumulated

adjustment, should significant unanticipated changes to the Company's cost of gas occur.

Q. DURING THE REVIEW PERIOD DID SCE&G FILE WITH THIS COMMISSION AN OUT-OF-PERIOD ADJUSTMENT RESULTING FROM SIGNIFICANT UNANTICIPATED CHANGES TO THE COMPANY'S COST OF GAS?

A. No. During the review period SCE&G did not file with this Commission for approval of an out of period adjustment to the levelized cost of gas component.

Q. WHAT PROCEDURES HAS THE COMPANY USED IN ESTABLISHING THE BASE COST OF GAS FOR THE TWELVE MONTH PERIOD BEGINNING IN NOVEMBER 2004?

A. SCE&G has projected its gas cost for this period. The procedures used in projecting the base cost of gas are as follows:

A) Gas costs are based on the historical twelve (12) months actual gas cost from September 2003 through August 2004. These gas costs are adjusted for known and measurable changes for the forecasted period November 2004 through October 2005. For example, these gas costs

filed by Southern Natural Gas (Southern) and Transcontinental Gas Pipeline Corporation (Transco).

B) The calculated base cost of gas is then multiplied by the forecasted sales for the period November 2004 through October 2005. The forecasted sales are adjusted for normal weather.

Q. WHAT WILL BE THE IMPACT TO SCE&G'S FIRM CUSTOMERS RESULTING FROM THE NEW BASE COST OF GAS PROPOSED BY THE COMPANY FOR THE 12-MONTH PERIOD BEGINNING IN NOVEMBER 2004?

A. The base cost of gas as proposed by the Company to be effective beginning November 2004 is 90.347 cents per therm. This proposed base cost of gas of 90.347 cents per therm compared to the current base cost of gas of 87.656 cents per therm is an increase of 2.691 cents per therm. Attached, as Exhibit No.__(BLS-1), is a comparison of a residential customer's annual cost at 600 therms.

The gas cost, being proposed by the Company of 90.347 cents per therm, represents latest known supplier gas

SCE&G and SCANA Gas, a marketer providing natural gas service in the unbundled open access market in Georgia.

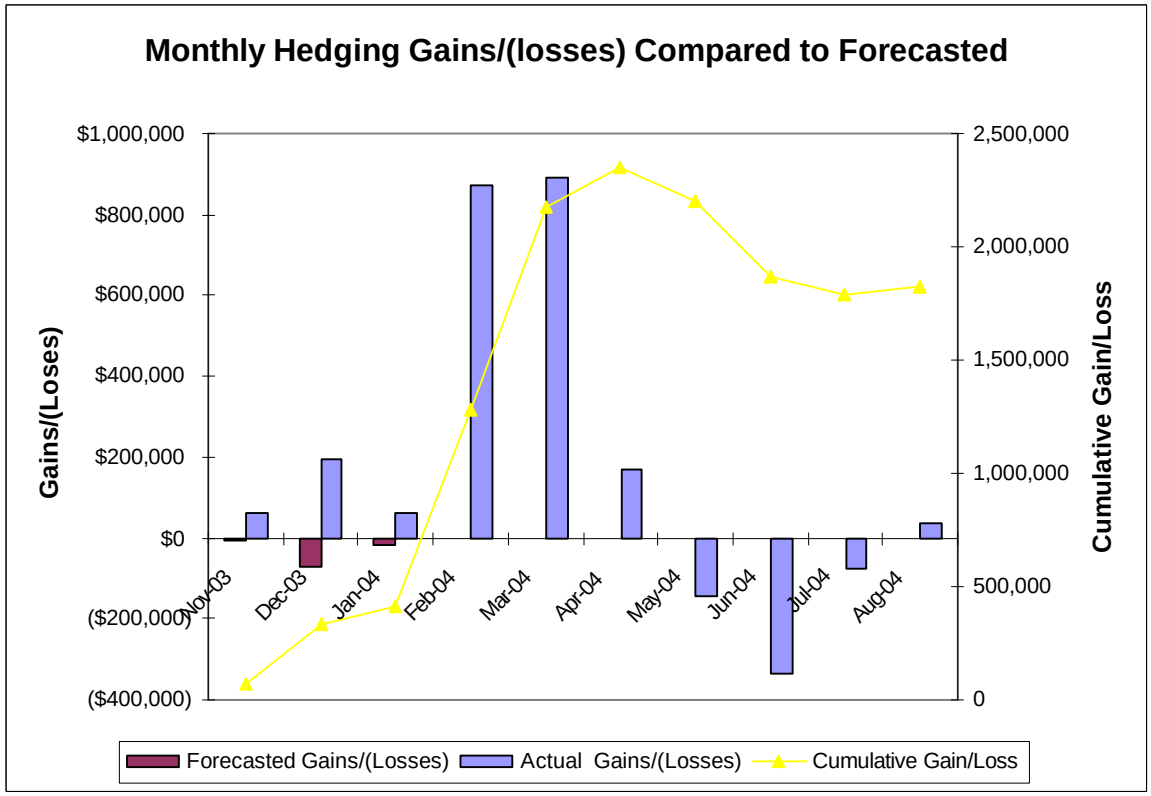
Q. HOW DOES THE OVER-COLLECTION OF GAS COSTS FOR THE 12 MONTH PERIOD ENDING OCTOBER 2004 IMPACT THE COST OF GAS FOR THE 12 MONTH PERIOD ENDING OCTOBER 2005?

A. The projected cost of gas for the twelve months period November 2004, through October 2005 has been adjusted for an over-collection of gas costs in the amount of $5,338,063. The decrease to forecasted gas cost due to the forecasted over-collection at October 31, 2004 is an adjustment of $0.02301 per therm.

Q. WHAT FACTORS HAVE CONTRIBUTED TO THE TEST-YEAR OVER-COLLECTION AMOUNT TOTALING $5,338,063 AND NOT THE ($511.00) AS PROJECTED IN LAST YEARS PGA PROCEEDING?

A. There are a number of factors that contribute to the Company over or under collecting its actual gas costs. My analysis of the factors contributing to the over-collection for the current review period focused on two factors. The first contributor was the impact resulting from hedging gains/losses. During the review period

collection of gas costs for the review period totaling $1,828,529.



Monthly Hedging (gain/loss) Compared to Forecasted

Month	Forecasted Gains/(Losses)	Actual Gains/(Losses)	Cumulative Gain/Loss	Difference
Nov-03	($9,038)	$64,189	73,227	73,227
Dec-03	($71,288)	$192,292	336,807	263,580
Jan-04	($15,375)	$61,115	413,297	76,490
Feb-04	$0	$871,596	1,284,893	871,596
Mar-04	$0	$893,969	2,178,862	893,969
Apr-04	$0	$170,858	2,349,720	170,858
May-04	$0	($146,034)	2,203,686	(146,034)
Jun-04	$0	($338,326)	1,865,360	(338,326)

The second contributing factor was the recovery of actual gas cost. These costs are comprised of both fixed demand and commodity cost of gas.

Demand Cost:

SCE&G projected demand cost for the 12 months ending October 2004 to be $34,914,888. (Per Exhibit No.__(HLS-4), Docket No. 2003-5-G). Actual demand costs incurred for the review period were $33,724,676. This difference resulted in an over-collection of gas costs for the review period of $1,190,212. During the review period SCE&G experienced lower sales than were forecasted. Resulting from the lower than forecasted sales, the company recovered $762,413 less demand dollars resulting in a net over-collection of demand cost of $427,799.

Commodity Cost:

SCE&G for the review period experienced an under-collection of commodity gas costs of $3,492,120. The collection of commodity gas costs was impacted by two factors.

? The forecasted versus the actual price paid for

resulting in an over-collection in gas cost of $54,574. Exhibit No.__(BLS-3).

? The forecasted versus the actual sales experienced for the review period. The actual sales experienced during the review period were less than forecasted resulting in an under-collection of $3,546,694. Exhibit No.__(BLS-4).

The following chart summarizes the analysis I have performed identifying the factors resulting in the over-collection of gas cost in the amount of $5,338,063 and not the ($511.00) as projected in last years PGA proceeding.

Estimate of Over (Under) Collection

Commodity Under-Collection	($3,492,120)		
Capacity Over-Collection	$427,799		$34.9M Projected - Lost $760K due to lower sales - Bill was $33.7M
Hedging Under-Collection	($1,828,529)	($5,320,649)	Components describing Billed vs. Actual
Value of Under-Collection Factor	$9,971,596		
Total	$4,892,850		
	vs.		
Exhibit. HLS_2	$5,338,063		

analysis the month of October was 13.88% warmer than normal, November was 49.13% warmer than normal, December was 10.14% colder than normal, January was 4.89% colder than normal, February was 18.57% colder than normal, March was 5.51% colder than normal and April was 1.38% colder than normal.

Month	Normal Degree Days	Actual Degree Days	Percent From Normal
October 2003	40.98	35.59	13.88
November 2003	181.43	92.30	49.13
December 2003	398.83	439.26	-10.14
January 2004	540.13	566.55	-4.89
February 2004	522.03	618.95	-18.57
March 2004	371.58	351.09	-5.51
April 2004	181.65	184.15	-1.38
Total	2,236.61	2,287.59	-2.28

In reviewing the weather experienced by SCE&G in its service territory Normal Heating Degree Days are the normal heating degree day totals for the thirty year period 1971 – 2000, as produced by the National Oceanic

is received daily from NOAA recorded at the Columbia and Charleston Climatological stations.

As I have demonstrated in my testimony, there are a number of factors that impact the gas costs billed to SCE&G and the gas cost billed to SCE&G's customers. These factors and the impact weather has on sales presents quite a challenge in forecasting gas cost for a twelve month period. Recognizing this, I continue to recommend that the Company monitor its monthly over/under-recovery of gas cost each month, continue to report that information with the Commission, and that this Commission continue to recognize that as gas costs change the utility will need to seek Commission review and approval of out-of-period adjustments to the levelized cost of gas factor.

Q. HAS THE COMPANY PROPOSED A CHANGE IN THE ENVIRONMENTAL COLLECTION FACTOR?

A. No. The Company is requesting that the environmental collection factor continue at $.008 per therm. Staff has reviewed the reasoning found in the prefiled testimony

Q. DOES THE COMPANY'S APPROVED PURCHASED GAS ADJUSTMENT ALLOW THE COMPANY TO COLLECT COSTS OTHER THAN GAS-RELATED COST?

A. No. This adjustment allows the Company to collect only gas-related costs.

Q. DOES THE UTILITIES DEPARTMENT VERIFY THE MONTHLY DERIVATION OF GAS COST MADE BY SCE&G? IF SO, HOW OFTEN?

A. Yes. Each month we receive from SCE&G a comparison of the actual calculated cost of gas for the month compared to the levelized cost of gas component approved by this Commission. In preparation for each annual review of the levelized cost of gas component, the Utilities Department working with the Audit Department reviews adjustments, additions to, and subtractions from the cost of gas calculation.

Q. WHAT ARE THE UTILITIES DEPARTMENT'S FINDINGS WITH REGARD TO THE COMPANY'S GAS PURCHASING POLICIES?

A. South Carolina Electric and Gas Company purchases all gas supplies from South Carolina Pipeline Corporation (SCPC). SCPC sells gas to SCE&G under tariffs DS-1,

that the Company received adequate supplies of firm gas to meet its captive customers' needs. SCE&G forecasted its peak day firm demand for the 2003-2004 winter period at 342,821 DT's/day. To meet this peak demand the company has contracted for 276,495 DT's per day of firm contract from South Carolina Pipeline Corporation. SCE&G will utilize its propane-air peaking capabilities of 71,750 DT's/day to meet firm demand requirements above the 276,495 DT's of firm contract natural gas. In addition, the Company is able to compete with industrial alternate fuel prices through the operation of the ISP-R of SCPC. SCE&G, as well as all other sale for resale customers of SCPC, receives some benefits of lower cost spot market priced supplies in the weighted average cost of gas (WACOG) of SCPC. SCPC owns and operates the transmission system in which there are one hundred and ninety-three purchasing points for SCE&G. It is the Utilities Department's opinion, based on SCPC's years of experience and expertise in pipeline operations, that SCPC can adequately supply SCE&G with its present and

Department that SCE&G receives adequate supplies of firm gas to meet its captive customers' needs and is prudent with regard to its purchase of gas supplies from SCPC. In light of the many changes which continue to take place which affect the securing and transportation of gas, the Company should continue its on-going program to ensure that its gas supply is consistent with its customers' needs and to ensure that supply efficiency is maintained at reasonable costs.

Q. MR. SIRES, YOU HAVE INDICATED THAT SCE&G WILL UTILIZE ITS PROPANE-AIR PEAKING CAPABILITIES OF 71,750 DT'S/DAY TO MEET FIRM DEMAND REQUIREMENTS ABOVE THE 276,495 DT'S OF FIRM CONTRACT NATURAL GAS. PLEASE DESCRIBE THESE FACILITIES AND THEIR USEFULNESS IN MEETING SCE&G'S FIRM DEMAND REQUIREMENTS?

A. SCE&G has two propane-air facilities with one located in Columbia and the other located in Charleston. The facility located in Columbia has the capability of providing 4.20 days of propane-air mixture into the natural gas system while the facility located in

inventories of propane at each facility would require inventory levels of 1,836,000 gallons and 918,000 gallons, respectfully. The balances at August 31, 2004 are: Columbia @ 1,697,334 gallons and Charleston @ 858,909 gallons. During the review period SCE&G did not make any purchases of propane. The current dekatherm equivalent price of SCE&G's propane inventory of 2,556,243 gallons at August 31, 2004 is $5.01 per dekatherm.

A uniqueness of propane-air injection is that for example should SCE&G experience a winter peak requiring substantial use of its propane-air facilities in November or December, the opportunity would exist to begin the process of soliciting bids for additional propane and subsequently injecting those trucked volumes into inventory for future peak-day demand requirements.

Q. WHAT PROCEDURE IS IN PLACE TO ENSURE THAT NATURAL GAS SUPPLIES ARE READILY AVAILABLE TO FIRM CUSTOMERS DURING EXTREMELY COLD WEATHER?

A. South Carolina Electric and Gas Company operates under

jeopardize the Company's obligation to its firm customers. The curtailment is determined by the category of service that the customer is purchasing under and identified in the General Terms and Conditions of the Company approved by this Commission and understood by each industrial customer. There may be rare situations when supplemental deliveries of natural gas may be required to forestall irreparable injury to life or property including environmental emergencies. These deliveries defined as Emergency Service must first be approved by the Company and are exempted from curtailment.

Q. IN YOUR OPINION, SHOULD THE OPERATION OF THE COMPANY'S INDUSTRIAL SALES PROGRAM RIDER (ISP-R) CONTINUE?

A. Yes. It is my opinion that some program or mechanism is required for a natural gas utility to effectively compete with alternate fuels in the industrial market. The prices of alternate fuels used by the industrial customers are very volatile, and I could not give the Commission any assurances as to the chance of retaining

indicate that most customers prefer to use natural gas, because its use results in less maintenance to their equipment. Also, the emissions from natural gas-fired equipment result in considerably fewer pollutants flowing into the environment in comparison to other fuels such as fuel oils. In this regard, I would not expect that the industrial customers would favor termination of a procedure designed to retain the industrial gas load. The current ISP-R program has provided SCE&G the opportunity to do this.

Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?

A. Yes, it does.